NED W. DOWNING

EARLY AMERICAN CAPITAL MARKETS

ANTIQUARIAN

August 7, 1996

Eric Newman
6450 Cecil Ave.
St. Louis, Missouri 63107

Dear Eric,

Enclosed please find the salient information concerning the ubiquitous "Morris Notes" that we spoke about on earlier in the week. Both Price and Sumner are worth reading - loads of background information which helps me understand how these old and evocative financial instruments were used.

The notes about which you inquire are used by Morris to facilitate his tobacco trade. You'll see Price calls Morris' contract with the Farmer's General probably the largest deal in history up to that time. So I guess you might say these rare little notes are interesting. I've see the sheet of four which I originally had and one other damaged specimen. The one you referred to I'm quite sure was originally part of my sheet of four. There must be more. I seem to remember Betty Nuxoll telling me about another one??? In any case I copied then in three different contrasts - didn't have time to go to the copy shop to get the fancy copy. I think from a financial genius viewpoint they're better even than his S. of F Morris Notes(Princeton, MA. His. Soc.) Wouldn't you agree?

Morris was a dominating presence in 18th century finance. He had a mastery of the world financial markets better than any man had ever achieved and probably only equalled by Stephen Girard in the pre-Telegraph era. He made one dollar do the work of twenty and his highly leveraged financial profile was a model for many of the up and coming financial speculators and adventurers of the day. Most went down in flames, but their lives are sure fascinating to reconstruct.

I have letters somewhere describing Morris' troubles with the tobacco contract - some from Constable, Rucker, some from Morris and some from other trading partners if you need more in depth information. Good luck with your book and let me know if there is any other way I can help you.

Yours very truly,

Ned

Ned W. Downing

P.S. THE COPIES ARE LIFE SIZED & I CHECKED & THE OTHER DENOMINATIONS ARE $40 & $100 ON MY ORIGINAL SHEET.
Ned

Books
Broadsides
Revolutionary War Financial Instruments

70 WALNUT STREET
WELLESLEY, MA 02181
TEL: 617-239-8031
FAX: 617-239-8005

Autographed Letters
Source Documents
Lottery Tickets

Originals owned by Ted Downing

No. Philadelphia 178

For Value received I promise to pay on demand
to or Ten Dollars
in Coin or Bills of Exchange at Sixty Days Sight for Two Pounds
Five Shillings Sterling on London Twenty Five Current Guilders
on Amsterdam or Fifty Four Livres on Paris at the option
of the Holder

TEN Dollars

No. Philadelphia 178

For Value received I promise to pay on demand
to or Twenty Dollars
in Coin or Bills of Exchange at Sixty Days Sight for Four Pounds
Ten Shillings Sterling on London Fifty Current Guilders on
Amsterdam or One Hundred & eight Livres on Paris at
the option of the Holder

Twenty Dollars

No. Philadelphia 178

For Value received I promise to pay on demand

to or Ten Dollars

in Coin or Bills of Exchange at Sixty Days Sight for Two Pounds Five Shillings Sterling on London Twenty Five Current Guilders on Amsterdam or Fifty Four Livres on Paris at the option of the Holder

TEN Dollars

No. Philadelphia 178

For Value received I promise to pay on demand

to or Twenty Dollars

in Coin or Bills of Exchange at Sixty Days Sight for Four Pounds Ten Shillings Sterling on London Fifty Current Guilders on Amsterdam or One Hundred & eight Livres on Paris at the option of the Holder

Twenty Dollars

No. Philadelphia 178

For Value received I promise to pay on demand to or Ten Dollars in Coin or Bills of Exchange at Sixty Days Sight for Two Pounds Five Shillings Sterling on London Twenty Five Current Guilders on Amsterdam or Fifty Four Livres on Paris at the option of the Holder

TEN Dollars

No. Philadelphia 178

For Value received I promise to pay on demand to or Twenty Dollars in Coin or Bills of Exchange at Sixty Days Sight for Four Pounds Ten Shillings Sterling on London Fifty Current Guilders on Amsterdam or One Hundred & eight Livres on Paris at the option of the Holder

Twenty Dollars

ERIC P. NEWMAN NUMISMATIC EDUCATION SOCIETY

6450 Cecil Avenue, St. Louis, Missouri 63105

August 21, 1996

Mr. Ned W. Downing
70 Walnut Street
Wellesley, MA 02181

Dear Ned:

Your information is wonderful and very helpful.

I just got back from the ANA Convention in Denver so I didn't have the chance to thank you sooner. I am changing my pending revision to work in the material you sent.

Sincerely,

Eric

Eric P. Newman

EPN:bv

NED W. DOWNING

EARLY AMERICAN CAPITAL MARKETS

ANTIQUARIAN

February 7, 1997

Eric Newman
6450 Cecil Avenue
St. Louis, Missouri 63105

Dear Eric,

Enclosed please find the article, "Bonanza at the Flea Market", recently published about the controversial remaining examples of fully issued uncancelled New Emission Money.

I hope you'll be pleased to see that I am continuing the discovery process in which you have provided such groundbreaking leadership over the years. The particular issue discussed in this article is important to me because I am a student of the origin of our country's capital markets. The honorable settlement of the Revolutionary War debt was the lynchpin from which our country as a still operative grand experiment was launched. Understanding the Byzantine settlement process has been an evolution of collecting and research for me and unlocking its secrets a challenge worth pursuing.

I invite your commentary on the article and welcome any insights and clues you can bring to the table.

Yours very truly,

Ned W Downing

Ned W. Downing

Books

Broadsides

Revolutionary War Financial Instruments

70 WALNUT STREET
WELLESLEY, MA 02181
TEL: 617-239-8031
FAX: 617-239-8005
E-MAIL: ndhstry9@nfi.com

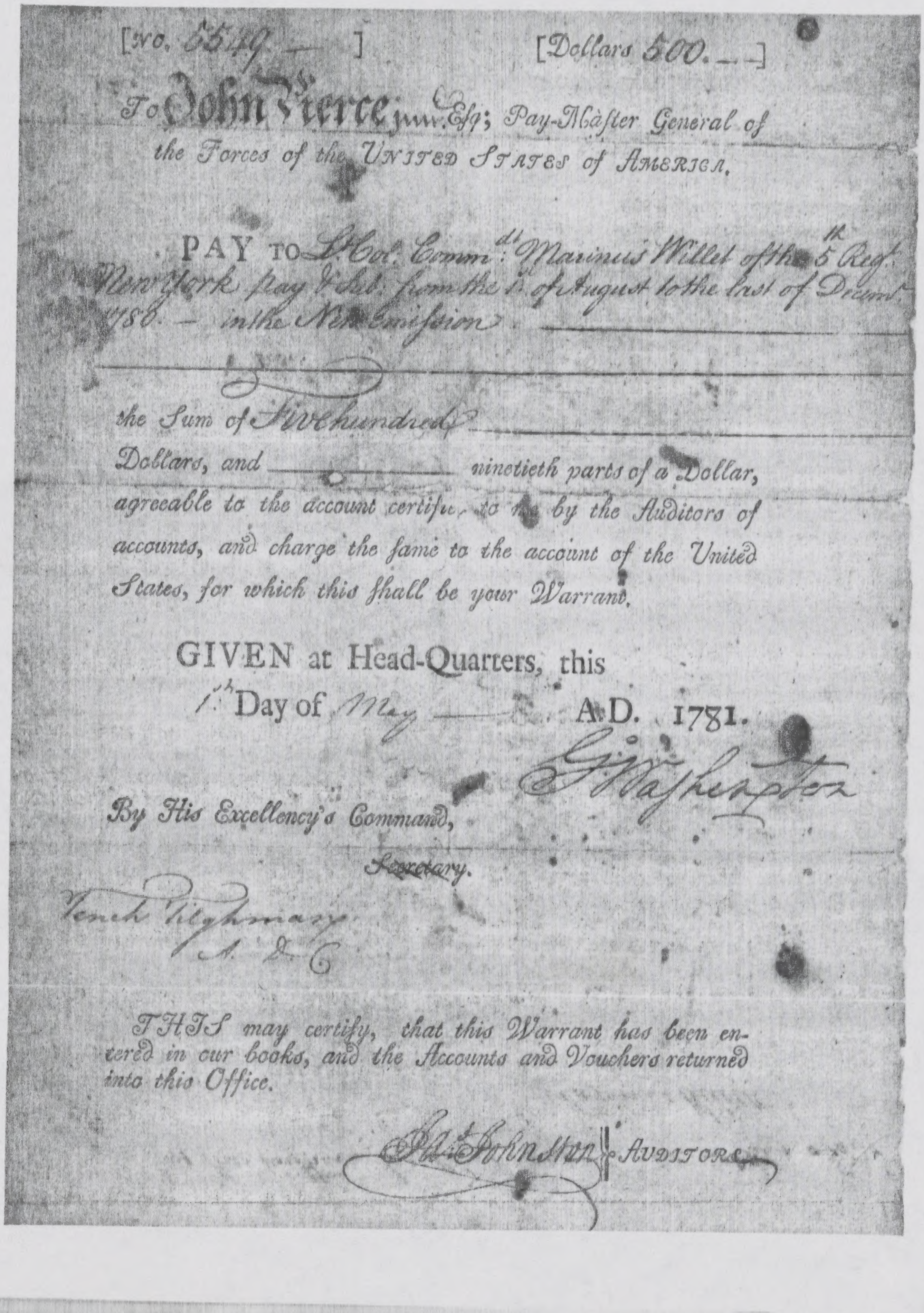
Autographed Letters

Source Documents

Lottery Tickets

Bonanza at the FLEA MARKET

by NED W. DOWNING



[No. 5549 —] [Dollars 500. —]

To John Pierce jun. Esq; Pay-Master General of the Forces of the UNITED STATES of AMERICA.

PAY TO Lt. Col. Comm^dt Marinus Willet of the 5th Regt. New York pay & sub. from the 1st of August to the last of Decemr. 1780 – in the New emission

the Sum of Five hundred

Dollars, and ______ ninetieth parts of a Dollar, agreeable to the account certified to me by the Auditors of accounts, and charge the same to the account of the United States, for which this shall be your Warrant.

GIVEN at Head-Quarters, this 1st Day of May — A.D. 1781.

G. Washington

By His Excellency's Command,

Secretary.

Tench Tilghman A. D. C.

THIS may certify, that this Warrant has been entered in our books, and the Accounts and Vouchers returned into this Office.

Jn^o Johnston } AUDITORS.

THERE is a potential bonanza awaiting alert collectors and speculators on the shelves of paper money, flea market, antique and ephemera dealers. Extensive research has uncovered a class of Revolutionary War financial instruments called "New Emission Money" (NEM) used by the Continental Congress to partially recapitalize the all-but-bankrupt U.S. balance sheet in the spring of 1780 in the midst of the Revolutionary War. This *first* American recapitalization effort was not successful, but enough of the NEM's were issued and never redeemed to make alert finders very wealthy if a simple case to make the government pay proves ultimately successful. This could take years or it could happen within a year or two!

Alexander Hamilton's *second* and wildly successful 1790 attempt to recapitalize the United States' balance sheet is somewhat better known than the *first* 1780 attempt which was only a partial recapitalization. According to Hamilton's 1790 plan to restore the public credit, three classes of "Stock in the Public Funds of the United States" were exchanged voluntarily for mostly defaulted-on specified Revolutionary War debt securities issued by the Continental Congress and each of the 13 original States. These "Stocks" then accounted for almost all of the securities traded on Wall Street when the NYSE began trading on May 17, 1792—the date of the Buttonwood Agreement used by the Exchange as the date of their origin. The Revolutionary War debt was called "The Price of Liberty" by Alexander Hamilton and the "Stocks" for which they were exchanged became the foundation of American capitalism.

The *first* attempted recapitalization in 1780 was a failure but some of the financial instruments issued are still available in todays marketplace and, if uncancelled and fully signed, could be worth a fortune if a present day attempt to sue for justice is ultimately successful. On March 18, 1780 the Continental Congress passed a Resolution authorizing it to print and send to the States for issuance a new class of security with more and better security features to make it more acceptable than any of its previously issued financial instruments. The NEM would be a bearer instrument. It would have an interest rate of 5%, a specified maturity of December 31, 1786, and would be issued and redeemed by the several States and carry on its reverse a signed guarantee of the United States to be used in the event the war prevented interest being paid or its redemption by the States. These were the first American obligations guaranteed by both the State and the United States—in todays Wall Street vernacular, a "double barreled" guarantee.

The United States Continental Currency experiment had already proved a disaster—then in March of 1780 trading at approximately 2½ cents on the dollar for the approximately $240,000,000 worth issued. The country's finances were prostrate and the Continental Congress' recapitalization plan was for the 13 States to tax $15,000,000 monthly worth of the Continental Currency out of existence. For each $40 worth brought in and cancelled a State would earn $2 worth of the NEM, which could then be used 60% for States purposes and 40% for Continental purposes. In theory then, Congress' $240,000,000 worth of Continental Currency obligations could be reduced to a more manageable $12,000,000 NEM obligation over a period of 16 months. Unfortunately what seemed a bold stroke of financial legerdemain at the time quickly failed as the patriots attempted to put the plan in action.

Only eight States attempted to comply with the *first* recapitalization attempt using NEM according to the Resolution of March 18, 1780. Few paid requested taxes. Several States were, in fact, occupied by the British and had no operative Continental Loan Office where this operation was to have been headquartered. The continued lack of confidence in paper obligations, more than anything, caused the plan to fail. But the financial administration of newly elected Superintendent of Finance Robert Morris attempted to maintain the viability of the NEM even though all paper obligations continued to decline in value relative to cash money in the 1780-81 period. The NEM's continued to be received by Morris' Treasury as equal to their face value in cash (as the Resolution required) in the payment of taxes in any of the several State's Continental Loan Offices. They were used as a substitute for hard money to pay soldiers' wages by George Washington himself. When the stark reality of impending bankruptcy loomed near, and as the decisive late summer of 1781 war-deciding battle of Yorktown demanded, they were used as expediency dictated.

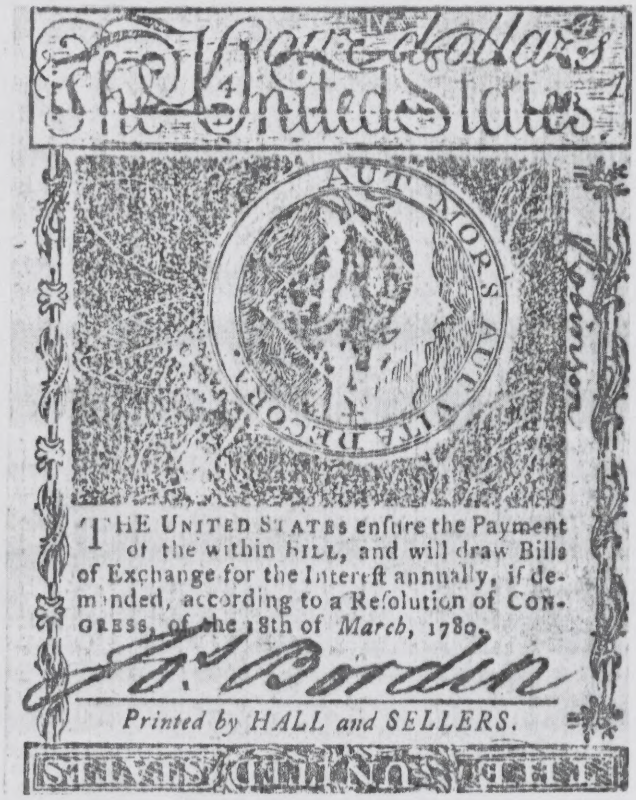
When Hamilton's monumental 1790 plan to restore the public credit was put into action, holders of about $90,000 worth of the NEM's were referred to Alexander Hamilton specifically to honor their claims, since their NEM had not been honored by the States involved for various reasons, but mostly because they were used for Continental purposes. All other NEM was cancelled and exchanged for respective State settlement certificates prior to the federal assumption of State debts. Holders of the $90,000+ NEM's were disappointed to find their claims unheeded in the August 4th, 1790 settlement between the general government and individuals, and then later in the June 29th, 1793 settlement between the States and the United States. In both instances Hamilton feared including these claims would disrupt his slender coalition's plurality to legislatively advance the $75,000,000 settlement of Revolutionary War debt process.

Hamilton attempted to bring justice to the holders of the NEM not settled by his August 4th, 1790 Funding and Assumption Act after the $90,000+ NEM holders registered their claims ahead of a legislative attempt to create a Statute of Limitations by limiting future claims to those displayed before May of 1793. Hamilton reported in his official Secretary of the Treasury "Report . . . on Public Credit of January 19th, 1795" that there were $90,000+ face amount of NEM's for which the United States were responsible. In this report Secretary of the Treasury Hamilton, unquestionably the most authoritative source of information concerning the Revolutionary War by debt, stated (p. 53) that *"Good faith demands that the United States should supply the omissions of the States which issued the Bills, by providing themselves, at least for the interest on them."* He further stated, *"The endorsement upon the Bills engage the absolute promise of the United 2 States for the payment of the issue indefinitely, and their eventual guarantee of the principal . . . which is in effect, though not inform, an absolute guarantee of the of the principal; for the United States are bound to pay the interest perpetually 'till that is discharged."*

A satisfactory plan to settle this issue was unreachable in the highly-charged political atmosphere of the early 1795 Congress, and Hamilton's almost immediate resignation tremendously reduced the legislative clout and support of the tiny group of holders of the $90,000+ worth of uncancelled and signed still valid NEM's.

Despite attempts to redeem these obligations over the following years the Federal Government steadfastly refused to even hear the complicated case. Only recently has it become possible to sue the U. S. government for justice. Both justice and good faith demand a fair hearing and settlement of the

unpaid claim these NEM's hold on the United States. They, the unpaid still valid bearer instruments payable to the "possessor", represent the remaining "Price of Liberty" left to be paid as the cost of American freedom. It is an embarrassment to a great country like the United States that these foundation debts remain unpaid after 216 years.



Still valid example of the back of the unpaid and uncancelled New Emission Money containing the signed guarantee of the United States. Joseph Borden was Treasurer of the United States, Francis Hopkinson's father-in-law and for whom Bordentown, New Jersey, was named. His job was to sign these notes only after they had been authorized to be used. (Courtesy of the Collection of the Author)

Each dollars face amount of NEM's at its stated 5% rate could be worth over $36,000 today, 216 years later—much more if actual rates available in the marketplace over time are used as reinvestment rates. NEM"s are found up to $20 (maybe worth $720,000!) denominations and must be uncancelled (no hole, ink cross outs or cross cuts) and have a signed U. S. guarantee on the back to be fully issued and still valid. They are found issued by Massachusetts, New Hampshire, Maryland, New York (rarest), New Jersey, Rhode Island (most available), Virginia, and Pennsylvania.

It's possible the Federal government may still be able to obfuscate and prevent a somewhat expensive ($36,000 × $90,000 = $3,240,000,000) final settlement of this issue. The amounts at stake are quite a bit smaller in reality, however, because of those examples that have been lost or destroyed over the last 216 years. I doubt there are more than a few thousand face amount of these in collectors' hands. Perhaps a hoard in some dusty safety deposit box unopened for years will change their relative scarcity, but it seems doubtful. Examples show up in the marketplace from time to time as unaware collectors and dealers sell their holdings. Prices currently depend on State of issuance, rarity, and condition and are usually offered from $100 up to $1,000@, but soon could rise and trade more uniformly according to dollar denomination as prospects for a legal challenge become known.

If you find one of these bearer financial instruments payable to the "possessor" your greatest ally will be our nation's 1788 passed Constitution which is the law of our land. Article 6 of that document says that all debts of the Revolutionary War period shall be just as valid against the new Constitutional government as they were under the Confederation government.

A legal challenge to satisfy the claims these uncancelled and signed NEM's hold on the Federal Government is in an advanced discovery stage by a major historical society and their very conservative lawyers, a most prestigious Boston law firm. New and important evidence located recently could speed the onset of an actual suit against the United States to sue for justice.

Get on board and share the excitement and the power of historical information!

Ned W. Downing is a 20 year Wall Street veteran retired in 1990 to a second career as an antiquarian specializing in letters and documents of Early American Financial History and of the enterprising characters that made the American economy the strongest in the world. You can reach him at 617-239-8031 or by E-Mail at ndhstry9@nfi.com.

SENDING MONEY BY MAIL

Washington, March 18.—Senator McMillan in the senate and Representative Lentz in the house yesterday introduced bills designed to afford an easy and inexpensive means of transmitting money by mail. They provide that all United States and national bank notes, silver certificates and treasury notes of $1, $2 and $5 denominations shall be replaced by new notes to be known as "United States post check notes." Fifty million dollars of United States notes of denominations above $10 shall be replaced with a like amount of fractional post check notes from 5 to 50 cents. The face [of the] bank notes are to be [be made] "payable to payee named hereon" in place of the present inscription "payable to bearer on demand," and the face of the notes shall have a blank space to insert the name of a payee, with space for receipt and stamp. The holder of any such post check by inserting the name of a payee and fixing a postage stamp may forward the same by mail to the designated payee, and it is redeemable at the post office named. The checks are then to be canceled and new checks issued.—*Sanborn* (N. Dak.) *Enterprise*. March 22, 1900.

SHINGLE MONEY

Shingle certificates operate as a circulating medium in Blaine, Wash. A certificate for $16 recently circulated until it had paid nearly $300 in local debts before finally reaching the place whence it started. The basis of the certificate was shingles, and it would purchase flour, meat, coffee, blankets, fuel, clothing for the wife and babies, and perform all the functions of a gold-basis certificate.—*Wood County Reporter*, Grand Rapids, Wis., Mar. 1, 1894.

ERIC P. NEWMAN NUMISMATIC EDUCATION SOCIETY

6450 Cecil Avenue, St. Louis, Missouri 63105

February 12, 1997

Mr. Ned W. Downing
70 Walnut Street
Wellesley, MA 02181

Dear Ned:

When I read your N.E.M. article in **Paper Money**, I smiled. I have long had these thoughts. I feel that a recovery right may also exist on Continental Currency but the interest obligation is not as clear as NEMs.

As you know, arguments against recovery have been based upon "depreciation tables" approved by Congress in the 19th century, laches, and upon the argument that speculators bought up the bills at discounted prices. These should have little legal impact.

Much has been written on the subject, even by Paul Bakewell of St. Louis in his many books. Was there litigation in the past?

If it is not too late, I will cite your article in the 4th Edition of my **Early Paper Money of America**, even though I already approved the page proofs. In that update I will add more Federal data on the 1780-1783 period.

Keep up your fine research and writing.

Your friend,

Eric

Ned W. Downing
70 Walnut St.
Wellesley, MA 02181

March 9, 1998

Dear Ned:

Thank you for the draft of the "Rags to Riches" review. It is patriotically and enthusiastically written and should create a great desire to visit the American Financial History Museum.

A clarification you might make is to give a more detailed description of the Paul Revere item on p. 2, line 7. You might also mention when the New York Stock Exchange started.

Thrive,

Eric P. Newman

Ned W. Downing   70 Walnut St
Wellesley MA 02181

Mass res 617 891 0895

Mass bus 617 239 8031

NH res 603 364 2171

owned sheet of 178 - notes
~~Cut sheet up~~   will send photo
tobacco

Price   ~~France + the Chesapeake~~
Vol 2 p 755
4/19/85   footnote

Sumner
the Financier & Finance of Robert Morris
p 158-160, 173
law prohibiting tobacco notes
special exclusive agent ~~for~~ buying tobacco
for Farmers General
of France.

THE FINANCIER

AND THE

FINANCES OF THE AMERICAN REVOLUTION

BY

WILLIAM GRAHAM SUMNER

PROFESSOR OF POLITICAL AND SOCIAL SCIENCE IN YALE UNIVERSITY

"It is of the nature of expedients to increase the evils which they postpone" REPORT OF 1785

"Experience has taught me to be cautious, even in doing good" R. MORRIS

IN TWO VOLUMES

VOL. II.

BURT FRANKLIN
NEW YORK

ed its income, in 1782, by $404,713, Morris's notes.

83 the United States notes, as they l. Morris wrote to the governors, "It happens well," he says, "that ck upon paper made on purpose, ark, 'United States National Debt.'" these anticipations, which form our forgeries were committed at New lassachusetts, named William May, l with six others, against whom he Sir Guy Carleton. They had made rfeiting notes of the different States. ether these were the so-called Mor- otes, to be distinguished from them; ates in Congress, reporting to the he forgery, say that the men were of forging the notes issued by the ance." [1] Forgeries were also com- States notes" in Virginia.[2]

d as remittances. Rubsamen writes 782, that if money can be got, it ris's notes, as the State Treasurer Another case where they are used 1 April, 1783.[4] In December, 1782, the Governor of New York for a y as member of Congress, asks for have not more than a fortnight to hem still better if they were due.[5] these notes were post notes or ex- ng interest, so that they would be urity.

[2] Ibid. 519.
[4] Ibid. 97. [5] Hamilton's Works, viii. 92.

In the spring of 1783, when Morris agreed to issue notes for the payment of the army, we find mention in his diary which shows that the paper on which his notes were printed was of a special kind. In May he was trying to hasten the manufacture of this paper. There was a special mould for it, which was marked "U. S.," which he kept with care; and he speaks of intrusting it to Dudley, with a written commission to supervise the making of the paper, and to take precautions that none of it should fall into other hands. This Dudley was the expert coiner whom Morris hoped to employ if Congress should pass a law for the mint.[1]

In September, 1783, A. Lee moved for a return of all notes issued by Morris *on the credit of the United States.* Morris replied by a table of "Subsistence Notes," beginning in December, 1782, and coming down to October, 1783. The grand total is only $163,720.[2] We do not find notice of any cavil or objection by Lee, and he would have made cavil if he could. How is this return to be understood in connection with the table at the head of this chapter?

Waln says that, besides the notes of the Bank of North America, Morris issued his own notes, being treasury notes, payable out of the revenues of the United States and foreign subsidies.[3] The notes of the Bank of North America cannot have borne the name of Morris at all, as he never was an officer of the bank, nor connected with it otherwise than as a stockholder and borrower, either in his public or private capacity. Waln says that he set up "a kind of private bank," under the care of Mr. John Swanwick, to bolster up his first emission of notes. Swanwick had all the specie which could be borrowed from all his

[1] See page 43; Hist. Mag. for Jan. 1867. [2] See page 110.
[3] Waln, 301.

and Morris's friends set out in piles, where it could be seen. With this he redeemed the notes, and so produced a credit which brought the silver in again on deposit. Then it was returned to its owners.[1] There is an entry in the accounts, under date of June 30, 1784, of $225, expenses of the office of John Swanwick, "an appendage of the finance office."[2] That bureau was therefore in operation in 1783–84.

Morris wrote to Tilghman, April 30, 1784, that he was easy about *all his private and public notes*.[3]

Still there were notes of Morris's outstanding, when he left the treasury, which carried his personal responsibility; and in his advertisement of October 11, 1784, he pledged himself *personally* to the holders that the notes should be paid *at maturity*.[4] There seems good reason to believe that these notes, perhaps to an important amount, continued in circulation.

In the following March the money market became very stringent at Philadelphia. Morris wrote to Tilghman at Baltimore, with whom he had business relations, that there were big shipments of money, and that the managers of the Bank of North America seemed inclined to stop discount; also that the attack on the bank had caused it to curtail discounts. In April he wrote that discounts had been stopped at Boston, Philadelphia, and New York.[5] April 19, he wrote again to the same correspondent that he had a contract with the Farmers-general to provide tobacco. He thinks that raw adventurers have kept up the price of tobacco. He has a scheme to bear exchange, and so to prevent shipments of that commodity by remitters. The Farmers-general will not buy in Europe. He has prepared notes, with which he hopes to pay for tobacco

[1] Waln, 274.
[2] Cf. the story about the Bank of North America, page 34.
[3] Ford MSS. [4] Dip. Corr. Rev. xii. 502. [5] Ford MSS.

better than he could do so with coin. The notes are to be payable on demand in coin, or in sixty-day bills on Europe. The first thing to do is to give the notes a circulation. He will deposit money with Tilghman in order that he may redeem the notes, and will sell bills against gold for the current rates. Tilghman is to indorse the notes in blank, which will make them payable to bearer. The paper is to be manufactured for the purpose. The word "Commerce" is to be water-lined in it.

We therefore find that when he left office, in November, 1784, he had notes outstanding which in some way involved his personal credit, and that in April following he began to issue notes for his tobacco enterprise. It seems impossible to resist the conviction that he passed over from one of these issues to the other without any break; and if that is true, or if he could immediately float notes of his own, it seems that the notes issued by him while in office must some of them have been his personal notes, and not those of the Superintendent of Finance.

In a letter of January 19, 1786, we find the fullest explanation of what these later notes were, for he seems to be reorganizing the system of them. There are two kinds of them, as before, and Tilghman is to have money with which to redeem them, if people want it. He reissued them. The denominations mentioned are \$100, \$40, \$20, \$16, \$15, \$10, and \$8. Morris drew promissory notes in favour of Tilghman, who endorsed them in blank. Notes redeemable in bills were to pass at "not less than five per cent advance." Virginia passed an act to prevent the circulation of private bank notes, and Maryland was considering the same plan. Thereupon, February 4, Morris wrote to his correspondent Tilghman: "I am unwilling to place myself in opposition to the laws of any country; and as I imagine these measures are levelled at me, I will be beforehand

with them, and therefore request that you will not pass any of the notes you have by you, but send me an exact amount of them, and perhaps, after I have seen the Virginia law, I may order the whole to be returned to me. At any rate, you shall then hear from me fully respecting them." On the 15th, however, he wrote again that, on reflection, he did not see how the law could hinder him from giving his note to any one who would take it, and that he would go on using notes. July 9th was written the last letter which we possess in this series. Tilghman was dead, and a new firm was to be formed. Morris's notes are referred to as out and to be out.[1]

In 1796 "bills" or "notes" of Morris were mentioned as selling at a very low rate. Could these have been still some kind of circulating notes?[2]

The latest mention we have found of the use of Morris's notes as a remittance is from Virginia, April 23, 1787.[3]

The results of this investigation as to the kind and character of the notes issued bearing Morris's name are extremely unsatisfactory. It seems probable that he issued two kinds of paper. One of them, probably the earlier, which he began to issue in 1781, were certificates of indebtedness for irregular amounts, signed by the Superintendent of Finance, and binding the United States, not himself. The other kind he was probably led to issue later. In the state of public credit, his endorsement would add to the value of a note issued by the United States. The notes, if manufactured for regular and round sums, would have great advantages for purposes of circulation. The same would be true if they were made to fall due at a date. We still find it difficult to understand, however, in what way or to what extent he put his own name and credit into them.

[1] These letters to Tilghman are all in the Ford Collection.

[2] See pages 229, 282.

[3] Va. Papers, iv. 273.

The extreme difficulty of
Morris's notes of the period
that they were all redeemed.
the accidents to which all pap
to be hoped that if attention
specimen may be found.

It seems very clear that M
issue of notes in 1785 for the
experience which he had ha
must have given him a great s
prestige to find that Robert
personage than the Superint
suggestion lay near at hand:
sonal notes for the purposes o
ment, why should he not circu
of Robert Morris? If he con
most important export staple
perintendent of Finance, in o
United States, why should h
profits for Robert Morris? I
as Superintendent of Financ
paper-mongering and bill-kiti
for Robert Morris? We have
was a sanguine, enterprising,
species of flattery to which
years, when he was told that h
ica who understood the myster
to turn his head. It is sad to
rendered his country should
moral reaction upon himself,
upon us as the most reasonabl

The extreme difficulty of finding a specimen of any of Morris's notes of the period of the Revolution is a proof that they were all redeemed. Still they could not escape the accidents to which all paper issues are liable, and it is to be hoped that if attention is directed to the matter, a specimen may be found.

It seems very clear that Morris was seduced into the issue of notes in 1785 for the purchase of tobacco by the experience which he had had as a public financier. It must have given him a great sense of personal power and prestige to find that Robert Morris was really a greater personage than the Superintendent of Finance, and the suggestion lay near at hand: If he could circulate his personal notes for the purposes of the United States government, why should he not circulate them for the purposes of Robert Morris? If he controlled the commerce in the most important export staple of the United States as Superintendent of Finance, in order to win profits for the United States, why should he not do it likewise to win profits for Robert Morris? If he had demeaned himself as Superintendent of Finance to the vulgar devices of paper-mongering and bill-kiting, why should he not do it for Robert Morris? We have seen ample evidence that he was a sanguine, enterprising, and energetic man. The species of flattery to which he had been subjected for years, when he was told that he was the one man in America who understood the mysteries of finance, was calculated to turn his head. It is sad to believe that the services he rendered his country should have had such a disastrous moral reaction upon himself, but it seems to be forced upon us as the most reasonable explanation of his career.

France and the Chesapeake

A History of the French Tobacco Monopoly, 1674–1791, and of Its Relationship to the British and American Tobacco Trades

Volume 2

JACOB M. PRICE

Ann Arbor
THE UNIVERSITY OF MICHIGAN PRESS

(Such practices were common, though rarely as explicitly stated.) The whole was to be paid for by drawing on Morris in Philadelphia who would redraw on Paris.[98] Morris was aware that the monopolists were likely to lose on the experiment in that prices were keeping up in the Chesapeake, while the farmers had not gone above 45 *l.t.* in their purchases in France.

Morris had also written Tilghman, "I shall not mention to Mr Alexander the business you are executing in regard to the Cargo of Tobacco, altho I shall in general terms let him know that offers are making to the Farmers General with an assurance that if I am interested in any new matters with them it shall not be to his prejudice."[99] Alexander, alert as ever, immediately accepted Morris's suggestion that he visit Philadelphia. There, in October 1784, the old Scot persuaded Morris to combine whatever contract scheme he might have had with Alexander's own scheme of the previous summer for a new contract based upon a large advance from the farmers-general. Only such resources would give the contractors the means to bargain effectively in a trade choked by overlong credits and gasping for cash. Alexander persuaded Morris that they should form a new company, nominally in the name of Robert Morris solus, but actually consisting of Morris and Alexander (whose shares would be in the ratio of two to one) and the Le Couteulx (whose share was left open). Morris would write in his own name to Le Normand offering to contract to supply the farmers-general at 36 *l.t.* per quintal, or 20 percent above the impractical price in the dormant Alexander contract. As token of their seriousness and as bait to the farm, the new company would immediately buy and ship to the Le Couteulx 2,000 hogsheads; if the monopoly accepted the new company's offer, the 2,000 hogsheads would be delivered immediately at the contract price, which would probably be significantly below the open market price in the French ports (then around 45 *l.t.*). Though Morris and Alexander expected to lose on the first 2,000 hogsheads, they hoped to gain over the anticipated three years of the contract. (The scheme of course involved abandoning not only insolvent Jonathan Williams, but also Laval & Wilfelsheim, who failed shortly thereafter.)

Morris wrote to Le Normand on 27 October along the lines agreed with Alexander.[100] The old Scot for his part returned to Richmond where he suddenly became very active in November-December, chartering five large vessels and buying his 2,000 hogsheads at prices (e.g., 31*s.* at Cabin Point) well above his old French limits.[101] Tilghman for his part was finding it quite tedious to assemble Le Normand's requested assortment from all the rivers. He eventually despatched the cargo from Baltimore in December on the *Arethusa.* It reached Le Havre early in February 1785, too late to play its planned experimental role in the monopoly's decision-making.[102]

Morris and Alexander, had they known all, could not have chosen a better time to make their October proposals. With the price of tobacco in Europe remaining high, with the monopoly's stocks of Chesapeake tobacco

scandalously low, and with the *parlements,* led by that of Rennes, setting up a terrible clamor about the wretched quality of the substitute Netherlandish, German, and Ukrainian leaf, the monopoly was prepared to contract on almost any terms that would avoid buying in Britain or accepting the "extortionate" prices and terms of Lorient. In November, before the receipt of the October proposals, Le Normand wrote anxiously to Morris asking why his May inquiries had not been answered and revealing that he was prepared to contract for 14,000–15,000 hogsheads in the coming year, to be purchased by Morris on commission, or on their joint account.[103] Such being their state of anxiety, when Morris's proposals of 27 October arrived in Paris in December, Le Normand and the farmers-general entered into immediate negotiations with the Le Couteulx, even though the requested samples had not yet arrived. The farm accepted all of Morris's essential terms and on 11 January a contract worked out with the Le Couteulx was signed by Le Normand. Under it, Morris agreed to furnish Le Normand with 60,000 hogsheads of tobacco: 20,000 annually in 1785, 1786, and 1787. Of these, one-quarter were to be James and York Rivers, one-half Rappahannock and Potomac and the remaining one-quarter Maryland, one-third of the last being suitable for pipe-smoking. Of the 20,000 hogsheads each year, 7,000 were to be sent to Le Havre, 7,000 to Bordeaux, 3,000 to Dieppe, and 3,000 to Morlaix. (Morris could assume no responsibility for Cette on the Mediterranean because of the danger to American shipping from the Barbary pirates.) Any surplus was to be sent to Le Havre. Morris was free to use any shipping, but was to give a preference to French and American vessels. The farmers-general were to make no other purchases in America, but could require Morris to furnish them additional supplies at the same price. Morris's "private" speculation of 2,000 hogsheads was to be included in the 20,000 hogshead quota of the first year. The price for all three years was to be 36 *l.t.* per quintal (or about 3*d*.¼ sterling per English pound); from this only the real tare of about 10 percent was to be deducted for the weight of the cask, in place of the fictive tare of 15 percent usually deducted in sales to the farmers-general. Finally, Le Normand was to advance one million *l.t.* for Morris's use in making the purchases. This was to be repaid by deducting two *l.t.* per quintal from the price of each hogshead delivered. On that very day (11 January), Le Normand paid the one million to Le Couteulx to be made available to Morris when the latter had confirmed the contract.

Morris probably received the contract in late March or early April 1785. He hesitated for a few weeks, as tobacco prices were still too high in Virginia. In the event, he took the plunge and signed the contract on 10 April, asking only for some consideration of his inevitable loss on the first 2,000 hogsheads. On the receipt in Paris of Morris's acceptance, the oral consent of the controller-general Calonne was obtained on 5 June and a final enabling contract signed on 13 June between Le Normand and the tobacco

committee of the farmers-general (de Saint Amand, Delahante, de Laage, Paulin, Puissant, Roslin and Pignon). Its provisions were effectively and understandably the same as those in Le Normand's January contract with Morris. Only the Le Couteulx held back; disturbed by political uncertainties in Paris, they declined a share in the contracting company but received a swollen commission of 2 *l.t.* per quintal for their services. If all 60,000 hogsheads were delivered, this would be worth 1.2 million *l.t.* (£50,000 sterling), or better than five percent of the face value of the contract, roughly 21.6 million *l.t.* or £900,000 sterling, very likely the greatest "private contract" of the *ancien régime*.[104]

While the Morris contract was crossing and recrossing the Atlantic, word leaked out somehow that the tobacco monopoly was considering making a long-term contract. In January, shortly after they made the Morris contract, the purchasing committee attempted to lay a false scent by writing collectively to James Bourdieu that they would give him their London orders "whenever circumstances would permit."[105] From London in July 1785 Bourdieu sent another memoir to the purchasing committee of the united farms, pointing out the folly of buying tobacco at Lorient above the world price when the Americans only used the money so earned to buy goods in England.[106] He also visited Paris to make a quite serious offer at 32 *l.t.* per quintal, but his long association with Necker reduced his influence with the controller-general Calonne who cited Vergennes' veto of any purchases in Britain.[107]

Bourdieu's inveterate rival, Sir Robert Herries, was in a much stronger position vis-à-vis Calonne and Vergennes. Armed with letters of support from the French ambassador in London and from the British foreign secretary to the British ambassador in Paris, he went over to Paris early in April 1785 to protest at being passed over when French purchases in London that winter had been made via Le Normand and C. Loubier & Teissier.[108] He soon became aware that French state policy would not permit the resumption of purchases in Britain and probably learned that something like the Morris contract was afoot. On 12 April, Herries therefore submitted a quite new proposal similar in idea to the still secret Morris contract. He offered to supply the monopoly with 20,000 hogsheads a year for the next two years to be purchased in America and shipped directly to France. (He corresponded regularly with Morris whom he wanted to interest in his scheme.) However, Herries reserved the right to buy elsewhere if his American purchases fell short of his commitments. He asked for generous drawing rights, but no cash advance. During the first year, the price would be 10 percent below the average free market prices in London, Amsterdam and Hamburg at delivery. For the second year, he offered a fixed price of 40 *l.t.* per quintal for superior Virginia (one-eighth of the whole), 38 *l.t.* for ordinary Virginia (one-half) and 35 *l.t.* for Maryland (three-eighths). This

worked out to an average of 37 *l.t.* 2*s.* 6*d.* compared to Morris's 36 *l.t.* However, since Herries was allowing the normal fictive tare of 15 percent while Morris's contract called for only the "real tare" of 10 percent, Herries' price was actually the equivalent of only 35.27 *l.t.* and thus below Morris's for the second year.[109] Sir Robert was, however, told by Saint Amand, the head of the farms and of the tobacco purchasing committee, that his scheme was too complicated. He therefore submitted a revised scheme on 15 April in which he offered to supply the monopoly for 40 *l.t.* per quintal the first year and 38 *l.t.* the second if granted an advance of two millions. Allowing for the differences in tare, his new prices were the equivalent of 38 *l.t.* for the first and 36.1 for the second year on Morris's terms. They were thus slightly above Morris's prices and were understandably refused.[110]

In June 1785, while Morris's contract was still a great secret, La Fayette obtained for Jefferson a copy of one of Herries' April proposals. Jefferson, the new United States minister in Paris, sent a copy of this scheme to the governors of Maryland and Virginia, with the hope that some American merchants could produce a rival offer.[111] The Herries story was soon in the newspapers, causing the retiring president of Congress, the Virginian Richard Henry Lee, to protest vigorously to the French chargé d'affaires Otto, who reported his sentiments sympathetically to Vergennes.[112] Meanwhile, Patrick Henry, governor of Virginia, replied to Jefferson that he would try to find some native competition to Herries, but doubted that there were any Virginia merchants who had the capital to undertake such a venture.[113] The Richmond firms of David Ross, Thomas Pleasants, Jr., and Nelson, Heron & Co. wrote further to Jefferson that no one in Virginia could contract for a fixed price while prices were so unsteady and that the farmers-general would be well advised to make their purchases on commission until prices settled; they would be glad to undertake such work.[114] Pleasants also wrote individually that no Virginia merchants would dare contract at a fixed price lest British merchants conspire to force up the price and ruin them.[115] While Virginians were debating the terms of the "red herring" Herries offer published in the Maryland and Virginia press, news of the Morris contract suddenly arrived on 17 or 18 October 1785. David Ross wrote immediately to Jefferson that, under the changed circumstances, there was no point in the Virginians making counteroffers now.[116]

Although Robert Morris obtained much better terms in his 1785 contract than Alexander and Williams had in theirs of 1783, he was still gambling upon a fall in prices to something under 28*s.* Virginia currency per 100 lb., as is suggested by the following calculation. From the nominal contract price of 36 *l.t.* per quintal, one must first deduct two *l.t.* for the "allowance" to Le Couteulx in France and one *l.t.* for the approximate equivalent of the lowest possible commissions in America, making 33 *l.t.* the effective price received by Morris.

	Alexander Contract	Morris Contract
Contract price	30 *l.t.* per 100 Fr. lb.	33 *l.t.* per 100 Fr. lb.
Deduct for excess tare	– 1 *l.t.* 10*s.*	– 0 *l.t.*
	28 *l.t.* 10*s.*	33 *l.t.*
In sterling @ 24:1	23*s.* 9*d.*	27*s.* 6*d.*
Convert to Br. wt. (–8%)	– 1*s.* 11*d.*	– 2*s.* 2*d.*
Sterling price in Europe	21*s.* 10*d.* per 100 Eng. lb.	25*s.* 4*d.* per 100 Eng. lb.
Deduct freight	– 3*s.*	– 3*s.*
U.S. price in sterling	18*s.* 10*d.*	22*s.* 4*d.*
In Va. currency at par (125)	23*s.* 7*d.*	27*s.* 11*d.*
In Md. currency at par (167)	31*s.* 4*d.*	37*s.* 2*d.*

From the above, something more would have to be deducted for overhead and miscellaneous expenses (travel, postage, lighterage, warehousing, etc.). On the other hand, the actual exchange on London was then well above par, more than balancing out the London commission and the losses on the exchange between London and Paris. (To get cash, Morris had to sell bills on London demanded by American buyers, instructing his London agent to obtain funds by selling bills on Le Couteulx in Paris; any loss on the last transactions was a cost to Morris.) The net profit on exchange probably more than covered the above miscellaneous business expenses. It is therefore possible to suggest that Morris's break-even price was somewhere near 27*s.* Virginia currency or 36*s.* Maryland.

As soon as Morris signed his contract in April, he arranged for a meeting with Alexander in Baltimore on 10 May, "in order to fix all our Arrangements." It was now agreed that their partnership for the defunct Alexander contract would continue for the Morris contract, though the details were left to be worked out later. For the time being too, the new contract would be kept secret and Alexander & Co. of Richmond would continue to make purchases as if nothing had changed.[117] In fact, as just noted, word of the new contract did not get about in the Chesapeake until October. Morris was gambling on a fall in prices and wanted to do nothing that would excite the market.

From the beginning of the year, Morris had been warning Tilghman to be very careful in buying both for him and for Alexander so as not to drive up prices.[118] In April 1784, Morris had predicted that tobacco prices would drop because of the growing tightness of credit,[119] only to be proved wrong. Tobacco prices remained high through 1784 because of the short crop in 1783 and the enormous importation of European goods after the peace. In January 1785, he again predicted that "the price of Tobacco will

fall" because of "the large Crop [of 1784] in Virginia, the quantity now made in Georgia & South Carolina, the falling prices in Europe & the Scarcity of money in America."[120] By April, he was all the more sure of this

TABLE XI
Tobacco Prices in Virginia and Maryland, 1784–86[121]

	Petersburg	*Richmond & Hanovertown*	*Rappahannock (F'd'ksburg)*	*Potomac (Dumfries)*	*Md. Dull (Baltimore)*
		(per 100 lb. in local currency)			
1783					
Nov.					30*s.*
Dec.	25–26*s.*				32/6
1784					
Mar.	32/6–33	34–36*s.*		25–26*s.*	
4–5 Apr.	33–33/6	34/6			35
6–12 May	35–36	37/6			38
24–26 May	36	38	30	30	
12–14 July	40	42/6	32–34	32–34	
Aug.	40				37
2–16 Sept.	40	up to 42/10	31+	31+	37/6
16 Oct.	40–42				
26 Oct.– 9 Nov.	30	28–33			
12–15 Nov.	36–37		28–30	28–30	35
9 Dec.	37	38	32		
1785					
16 Jan.	30–32	34			
18 Feb.	35–36	36	29–30		
19 Apr.				30	
May–June	32–33				35–37/6
14–26 July	32–33				33/6–35
Aug.	30–32/6	30–32	28		
2 Sept.	28–30				
Oct.					32/6
3–10 Nov.					30
4 Dec.	22/6	24			
1786					
ca. 1 Jan.	22/6–24	22/6–24	18–20	18–20	
15 Jan.	20–21		19–20	17–18	
12–13 Feb.					27/6
18 Apr.					25
May			20	20	25

At par: 100 sterling = 125 Virginia = 166 2/3 Maryland; hence, 100 Virginia = 133 1/3 Maryland

since under his new contract, the farmers-general would not be buying tobacco in Europe.[122] However, prices in fact remained disappointingly high in America during the bulk of the 1785 marketing season (January-August), as one can see in Table XI.[123]

Morris, who was aware that the failure of prices to fall was partly to be blamed on purchases on credit or against book debts, instructed his agents not to try to match such prices in their *cash* purchases.[124] He also felt that many "raw Adventurers" were buying and shipping tobacco blindly rather than take the prevailing high (ca. 5–10 percent) loss on the exchange in remitting by bills. In other words, the high rates of exchange on Europe created a demand for tobacco as an alternative form of remittance and forced up tobacco prices. To bring down the rates of exchange on London and Paris should logically bring down the price of tobacco. To effect this, Morris decided on 19 April to issue his own private bank (bearer) notes to be used for tobacco purchases by his agents in Virginia and Maryland. These would be redeemable on demand at his office in Philadelphia in gold or silver or in bills of exchange on London, Paris or Amsterdam at 166 2/3 (par in Pennsylvania and Maryland for London exchange), instead of at the 176–180 then prevailing.[125] The circulation of these private notes was much resented in Virginia and had much to do with Morris's later financial troubles.

In the event, with money tight, prices did moderate enough in Virginia by June 1785 for Alexander to begin large scale purchases there, but stayed up in Maryland until about 1 July when the eastern shore subagent, William Hemsley, was able to buy the whole crop of the greatest local proprietor, Lloyd of Wye. By July, the French agents' open purchases and bad sales reports from London frightened many private speculators out of the market.[126] Thereafter Morris was able to make extensive purchases in both states,[127] but only by abandoning his hopes of driving prices down further.[128] All this added up to a late start and a disappointing season. Only in November-December 1785 and the early months of 1786 when the size of the huge crop of the previous fall was understood, did the great break in prices so long expected finally come. This delay meant that Morris shipped only 5,808 hhd. in 1785 instead of 20,000 and only really got his "system" going the next year.[129] By then he was in trouble in both America and France.

The heavy speculative activity of 1783–84 had given way to an acute depression in most branches of United States foreign trade in 1785. In July 1785, the French consul at Williamsburg reported that imported goods could not be sold in Virginia, except at auction. It was believed that there was an eighteen months supply of foreign goods in traders' hands in the country. Despite the depression, British merchants were reported expanding their operations in the Chesapeake at the expense of their weaker American and French rivals, most of whom had lost on their 1784 tobacco returns.[130]

So busy did business suddenly become in January 1786 that Morris had to take extraordinary steps to keep all his agents in funds. He preferred that Alexander, Tilghman, and the rest draw on him rather than sell bills on Paris or London because the exchange on Europe in Philadelphia was up to 5 percent higher than in Virginia and Maryland and he did not want to lose this profit. He deposited a large quantity of his own bearer notes with Tilghman in Baltimore (and presumably with Alexander in Richmond as well). These chief agents were to use the notes to pay for tobacco where possible and also to buy cash. Tilghman, for example, was to keep a constant supply of 3,000–4,000 silver dollars on hand to meet the bills or demand of the subordinate agents in Maryland and northern Virginia. As rapidly as the cash supply was depleted, he was to refill it by buying more cash either with Morris's notes or with bills of exchange on Morris in Philadelphia. Alexander in Richmond could raise money by selling bills on Morris in Philadelphia, on Tilghman in Baltimore, or even on Constable, Rucker & Co. in New York. Only in emergency were Tilghman or Alexander to sell bills on Europe.[197] Alexander also remitted to Tilghman by buying Baltimore bills in Richmond so that Tilghman could pay the north Virginia subordinate agents operating under Alexander's directions.[198] By March 1786, the financial operations had reached a scale far exceeding the one million *l.t.* advanced by the farmers-general and were sustained only by an "immense" advance to Morris from the Le Couteulx.[199]

The wide circulation of Robert Morris's private bank notes in Virginia and Maryland caused considerable resentment in some mercantile circles in those states, a resentment no doubt made the keener by hostility to his contract. He was considerably alarmed early in 1786 when the Virginia legislature passed and the Maryland legislature threatened to pass an act prohibiting the circulation of private bank notes. For a moment, he thought he would have to withdraw his notes. After reflection, however, he decided to withdraw only those notes payable in bills of exchange on Europe and to continue circulating those payable in demand in specie. "Upon reflection," he wrote Tilghman, "I do not see how it is possible for the Virginia Law or any Law in a Commercial Country to prevent me from giving my Note of hand to any body that will take it." As there was considerable demand for these notes in both states, his boldness worked and his operations continued.[200]

When his operations got into full swing in 1786, Morris naturally had some difficulties finding enough ships. Although his contract obliged him to give preference to French and American craft, one finds no trace of French vessels in his correspondence. Even American vessels were not ideal for his purposes. Because of the danger to United States ships from North African pirates, Morris's contract provided for no deliveries in the Mediterranean. Even for shipments to the French Atlantic and Channel ports, he preferred to use not American ships but vessels with flags at peace with the

cluding 5,300 then at Lorient, compensate the sellers for storage costs during the long delay, and make no further contracts with Robert Morris and give him no preferential treatment.[255] J. J. Bérard & Co. was obviously much less worried about the monopoly's overstocking and much more concerned about selling off the tobacco they had on hand. Vernes secured an interview in April with Lambert, Dupont and Jefferson to discuss the memoir, but nothing came of it.[256] The farmers-general had won the last battle in their war against Lorient and the house of J. J. Bérard & Co. By the legislation of 1787 to encourage the American trade, all major ports had acquired free entrepôt facilities for United States produce and Lorient lost its special free port status. Much of its trade, including that of supplying Irish smugglers, moved elsewhere, particularly to Bordeaux.[257] Vernes himself soon accepted the new reality and left the Bérards in 1789 to start his own house at Bordeaux.[258]

The end of both Morris contract and Berni addendum in December 1787 found the affairs of Robert Morris quite confused, both for onlookers and Morris himself. As early as June 1786, he had written to Thomas Tilghman that some of the tobacco purchased by his late brother, Tench Tilghman, had proved defective on arrival in France, creating a very bad impression there and causing Morris a considerable loss. Since the inspection system did not give them adequate protection in Maryland, they would have to be particularly careful.[259] A year later, all kinds of rumors were circulating about the success of Morris's contract and about his financial standing. A Baltimorean wrote:

> Robert Morris of Philadelphia and the French agents are disputing about the quality of the tobacco shipped; the funds that had been sent to London to meet Morris' drafts are stopped, and Morris' agent, who had returned to America, has had his bills protested; the merchants [in Baltimore], alarmed at this, have sent all Morris' bills circulating here to Philadelphia for payment.[260]

This concatenation of unrelated truth and rumor was caused by the stoppage of Morris's London agents, Gregory, Turnbull & Co., with £70,000 sterling outstanding in accepted bills of exchange. At first, it was believed that Le Couteulx had refused assistance but that great house, Morris's bankers in Paris, grandly assumed responsibility for all Morris's outstanding bills on Gregory, Turnbull & Co. By the end of July, the crisis had passed. As for the reported quality disputes, the farmers-general did in fact insist on taking fully 2,885 hogsheads at less than full contract price because of inadequate quality.[261]

Yet by mid-1787 Robert Morris's position was undoubtedly weaker. One of the first to know this and desert was William Alexander. He had bought almost half the tobacco under the contract and had handled enor-